



Q & A About the Utility Tax

In 2010, the City of Liberty Lake City Council implemented a utility tax ordinance becoming effective on December 26, 2010 to provide sufficient revenue to cover an anticipated deficit in 2012 and relieve longer-term structural budget imbalances due to a growing gap between revenues and cost of city services. This document is being provided to help answer some of the questions you may have.

1. Why is the City's budget so tight?

The main reason is – much like a private business – the City's expenses grow by at least the rate of inflation every year. Unfortunately – unlike most private businesses – the City's revenues don't grow as fast.

Revenue options are very limited for cities due to federal and state restrictions. The City has relied heavily on two main funding sources, property tax and retail sales tax. Cities face two primary restrictions on their property taxes – a maximum regular property tax levy rate and a limit on the amount of additional property taxes they can levy in a year. By Washington State law, the City is allowed to increase the annual property tax revenue received by 1% per year plus an increase for the value of new construction added to the tax rolls from the previous year.

Retail sales and use tax revenue, in contrast to property tax, is a highly unstable revenue source and is, therefore, very difficult to predict. Growth in taxable retail sales over the past several years had been fueled by new construction and real estate related sectors, which had significant growth between 2005 and 2007, however growth has slowed significantly following the economic downturn. Retail sales and use tax revenue has declined 22% since 2008. The City anticipates sales tax will grow at a slow pace over the next five years, with an average of 2-3%.

2. Where do my property tax dollars go?

Residents of Liberty Lake pay property taxes each year with the City receiving 13% of the total property tax bill. This means that for every dollar paid in property tax, the City of Liberty Lake receives 13 cents to help support public safety, streets, parks, recreation, library, criminal justice, and planning and economic development. Property tax is prohibited by State law from growing faster than 1% per year. In 2011, 1% represents approximately \$18,537.

As you can see from the illustration below, Central Valley School District and Fire District 1 receive the highest percentage of property tax dollars (60% combined). In 2010, the City of Liberty Lake had the second lowest property tax rate in Spokane County which includes the library at 1.55715 per 1,000 assessed value.



3. Why not just cut spending?

The City has cut spending. Since 2008, the City has reduced spending in the General Fund by \$1.3 million through cuts and deferments. In 2011, additional cuts were made including no cost of living adjustment for city staff, library hours were reduced from 46 to 40 hours a week, the Golf Superintendent and Parks Superintendent positions were combined, the employee health reimbursement program was not funded, and there were continued reductions to supplies, services, travel, training, and equipment. Deferring expenditures has created challenges because they will eventually need to be reintroduced into the budget. Expenditures that have been deferred include public safety and street maintenance and infrastructure improvements.

4. What is the utility tax and what utilities are subject to the tax?

Utility taxes may be levied on the gross operating revenues earned by private utilities from operations within the boundaries of a city. The City of Liberty Lake levies a six percent (6%) utility tax on electric, gas, telephone, cable TV, and garbage. The tax is legally levied on the utility, not the customer, and must be paid from utility revenues; however, utilities will often break out the amount of the tax on the customer's bill.

The tax does not apply to water, sewer, internet access, or satellite TV bills.

5. How much money is expected to be generated from the utility tax?

This is a new revenue source for the City and as such, is difficult to predict. The City has collected data from a number of cities similar in size to Liberty Lake with utility taxes, as well as obtained recent projections from Avista. The 2011 projected utility tax revenue is \$825,000.

6. Do our neighboring cities have utility taxes?

Most cities in Washington collect a utility tax. Cities in Spokane County levying a utility tax include Spokane Valley, Cheney, Medical Lake, Airway Heights, Deer Park, Millwood, Latah, and City of Spokane.

7. Is there a rebate program for low-income seniors or low-income disabled residents?

Yes, the utility tax ordinance calls for the Mayor or his or her designee to develop and propose to the Council a utility tax relief program for the City's senior and low-income or disabled and low-income residents. The Mayor, City Council and staff will be working on the utility tax rebate program during first quarter 2011.

8. Who do I contact if I have more questions about the utility tax?

Please contact Jessica Platt, Administrative Services Manager at 755-6702 or jplatt@libertylakewa.gov or Ann Marie Gale, City Treasurer at 755-6720 or agale@libertylakewa.gov.